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C O N F I D E N T I A L SECTION 01 OF 03 BASRAH 000059

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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [ELAB](#) [PGOV](#) [IZ](#) [IR](#)
SUBJECT: (C) BASRA: SOUTH OIL COMPANY DIRECTOR OPTIMISTIC ABOUT
FUTURE

REF: BAGHDAD 2204; BAGHDAD 2057; BASRAH 38

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REASON: 1.4 (b), (e)

¶1. (C) Summary: South Oil Company (SOC) Director General Dheyaa Jaafar told Basra Provincial Reconstruction Team and visiting Embassy Baghdad officers that a "completely different point of view" existed at SOC compared to just a few months ago, and international oil companies (IOCs) are now welcome to partner on the several SOC-managed oil fields. He said that the BP/China National Petroleum Company (CNPC) joint venture (JV) developing the nearby Rumaila oil field could begin within a few weeks. Jaafar dismissed the possibility of any significant public or political opposition to this or any other SOC-IOC JVs. At the same time, he said it was crucial for the public to see the benefits to these partnerships, in the form of more jobs and more prosperity. He hailed the arrival of several U.S.-based oil and gas service companies now establishing a presence in the province, and encouraged more of them to come. He reviewed the "excellent progress" of the major export capacity and pipeline infrastructure projects in the province. He said that there were limited hopes for any early re-establishment of export pipeline links to Syria, Saudi Arabia or Kuwait, due to the current political atmosphere. On the oil and gas fields that border Iran and Kuwait, he said that while the GOI continues to have good initial talks with Iran on how to deal with such fields, Kuwait was not yet ready for any such cooperation. Jaafar's positive attitude about SOC's outlook was encouraging. At the same time, expectations regarding job creation and improvement in the lives of local citizens will be high - and these expectations will need to be managed carefully. While IOCs will surely find doing business challenging in the months and years ahead, nonetheless, a palpable optimism exists today, one that was unimaginable even six months ago. End summary.

SOC now "on board" with IOCs

¶2. (C) Jaafar said there was a "completely different point of view and attitude" among SOC engineers and workers compared to just a few months ago, especially in the lead-up to the first oil/gas licensing round (ref C). Back then, SOC's rank and file "was not encouraged to cooperate with IOCs," and they "only heard the bad point of view" about them. He said that as a result of the Minister of Oil (MOO) Shahrستاني and Prime Minister (PM) Maliki's active promotion of these SOC-IOC partnerships, now "around 80% of workers are satisfied with the [IOC-SOC partnership] concept," and they all believe that this is the "right start for the oil sector." More important, he

said, "local society sees these partnerships as a good thing." He said that if the BP/CNPC deal moves forward well, it will cause the population to support still other companies who seek to work in other Basra oil fields, such as West Qurna, Az Zubair and Majnoon, and in the next two or three years, "big and positive changes" will continue. He said a recent oil road show in Istanbul had attracted 42 companies, and all expressed confidence about the Iraqi oil sector. Jaafar expressed optimism about the recently-initialed Az Zubair field project, to be developed by an Italy-based ENI, U.S.-based Occidental, and South Korea-based Kogas. Jaafar said that the West Qurna (phase one) field could also soon be awarded to the Exxon-Shell partnership. Jaafar half-jokingly said that, in fact, there is so much activity that could come on line that he hoped the second round did not bring any more IOCs-SOC partnerships: "This is enough! We're not sure we can absorb any more [IOC JVs] right now. It is too much work and capacity for SOC to handle."

BP/CNPC activities to start soon

¶3. (C) Jaafar confirmed that "within the next two weeks," senior BP and CNPC representatives and SOC officials would begin the precise calculation of current ("baseline") SOC production at Rumaila field, an important step that will establish the baseline production numbers from which BP/CNPC will calculate its own subsequent production targets - and compensation. He said that SOC's own preliminary figure was around 1,050,000 barrels/day (b/d), while the Ministry of Oil's (in Baghdad) initial estimate was about 950,000 b/d. Jaafar said that "we need to come to an agreement on how to measure our current production . . . we will have to negotiate . . . this will be a team effort." (Note: BP reps later told PRTOffs that the 1,050,000 figure could have been an "initial guess," rather than a precise figure. End note.) He said that once a metering program establishes an agreed-upon production rate, which he said could occur within two weeks, a full ramp-up of activities could begin.

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Downplays political opposition to IOC deals

¶4. (C) Jaafar dismissed the possibility of any significant public or political opposition to these SOC-IOC JVs. He said that the public strongly supports them. Noting that the Council of Ministers (COM) had already approved the BP/CNPC deal, he said that the Council of Representatives (COR) would not seek to vote on the issue, and the MOO's Petroleum Contract and Licensing Directorate's Legal Advisor had made a clear legal argument that this was strictly an executive branch role (i.e. COM), not one for the legislative branch (COR). Jaafar, a former member of the Basra Provincial Council (PC) who resigned to take up his present post in July, said that "only around two or three [of the 35 total] PC members" are opposed to the BP/CNPC or other SOC-IOC JVs; "they want the project to go ahead." He acknowledged that a few PC members are against it for political, rather than any technical or economic ones. (Note: While the PC has no legal role in approving these national contracts, any strong opposition could complicate IOCs' ease of doing business. End note.)

But "public needs to see the benefits [of IOCs' work]"

¶5. (C) Jaafar confirmed recent press reports of recent SOC hirings, and said that about 1600 mostly engineering and technical positions had recently been filled. (Note: SOC has an estimated workforce of around 16,000. End note.) He said that this was the first time in recent memory that so many people had been hired. He said that it was necessary to "start training new workers to be ready for increased demand," and also so that "locals can see the benefits [of the BP/CNPC deal]." He said that for every SOC job, around four to five indirect jobs are

created. Jaafar said that he expected similar new hiring for the West Qurna (phase one) and Az Zubair JV projects.

U.S. and other service companies are welcome to Basra

¶16. (SBU) Jaafar expressed optimism about the several international oil and gas-related service companies now establishing a presence in the province, including U.S.-based Baker Hughes and U.S.-based Halliburton, and said that he "encourages any such company to come here and form a JV." (Note: U.S.-based Weatherford has already been in Iraq for a few years. End note.) He said that he had regular meetings with Baker Hughes about their plans to set up a large facility on SOC grounds. "For these service companies, now is the right time to be here: they are good for Basra, they employ a lot of people, and bring training programs for workers." He said that the recent Washington investment conference on Iraq had showcased Baker Hughes's work here, and was a "good example."

Other infrastructure improvements moving forward

¶17. (C) Jaafar said that the South Export Redundancy Project, (SERP, which will replace Iraq's offshore fueling points and the feeder pipelines; refs A, B) was on schedule and fully funded, to be completed by around 2013, "which will give us the ability to export around 4.5 million b/d." He said that still other, subsequent expansion plans could increase export capacity more ("six to eight 8 million b/d"), with possible IOC assistance. He said that all these projects had the full support MOO Shahrastani and PM Maliki. He said that work to find any unexploded ordnance (UXO) within the paths of these pipelines was also progressing well. Jaafar said that two SOC pipeline projects to run from Az Zubair and Safwan to Al Faw were also progressing. He also noted the progress of other infrastructure work (tanks, pumps) at Al Faw. In response to a question whether the planned production increases might be cramped by the still-limited export capacity, he acknowledged that some IOCs have voiced this concern, but was confident that capacity increases would come on line in time. Jaafar said that apart from these improvements, SOC itself will be increasing its own production in the coming year by about 250,000 b/d, by rehabilitating or drilling new wells at Az Zubair, West Qurna and North Rumaila.

Neighboring states: export pipelines, shared fields

¶18. (C) Presently, Iraq's oil exports pass through Persian Gulf off-shore oil terminals and overland via Turkey. In response to questions about future additional routes, Jaafar said that in

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principle, PM Maliki and MOO Shahrastani were supportive of this concept, and that "we want good relations with all our neighbors." But he acknowledged that present relations with some of its neighbors complicated this idea for now. He said that the Iraq-Syria pipeline, presently not in use still "technically feasible," was complicated by the current state of Iraq-Syria relations. He similarly discounted any early restoration of long-dormant pipelines to Kuwait or Saudi Arabia. In response to questions about oil and gas fields shared by neighboring states (particularly Iran and Kuwait), Jaafar said that Iraq and Iran have held initial and "constructive" talks on how such fields could be handled. He was less optimistic about Kuwait, noting that the latter was "not ready at this time" for such discussions.

Bio

¶19. (C) Prior to becoming DG in July 2009, Dheyaa Jaafar, a petroleum engineer by training, had for many years worked his way up the ranks of SOC, most recently as Operations Director. He was elected to the PC in January 2009, as a member of the PM

Maliki's Da'wa Islamiya party. (He is said to be very close to Maliki.) He held this office only for a few weeks. Local contacts have told us that during this time in office, PM Maliki assured him that he would soon be named SOC DG. Jaafar became SOC DG in July 2009 in the wake of former SOC DG Numa's firing after publicly opposing the first oil round (ref C). Jaafar is a long time contact of the former Basra U.S. Regional Embassy Office, now PRT, and is understood to be favorably disposed toward the United States in general, and U.S. oil firms in particular. Jaafar is originally from Basra, and is married with several children. He speaks broken but adequate English.

Comment

110. (C) Dheyaa Jaafar's positive attitude about SOC's near and medium term outlook, particularly about working with IOCs, was encouraging. His comments clearly reflect a sea change in SOC's attitude from just a few months ago. At the same time, expectations regarding job creation and improvement in the lives of local citizens will be high - and these expectations will need to be managed carefully. And while IOCs will find doing business challenging in the coming months and years - training and certifying workers, a glacial GOI bureaucracy, shortage of suitable sub-contractors to utilize, shortage of office and hotel space, and the always-worrying security situation - nevertheless, a palpable optimism exists, one that was unimaginable even six months ago.

NALAND